
**Review of Revolving Funds,
Trust Funds, and Trust Accounts
of the Office of the Governor,
Office of the Lieutenant
Governor, Department of
Education and Hawaii State
Public Library System, and
Office of Hawaiian Affairs**

A Report to the
Governor
and the
Legislature of
the State of
Hawaii

Report No. 02-05
February 2002



THE AUDITOR
STATE OF HAWAII

Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds are existing funds meet legislative criteria.
7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.
8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.
9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaii's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



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OVERVIEW

Review of Revolving Funds, Trust Funds, and Trust Accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawaii State Public Library System, and Office of Hawaiian Affairs

Report No. 02-05, February 2002

Summary

Section 23-12, Hawaii Revised Statutes (HRS), requires the State Auditor to review all existing revolving and trust funds every five years. The review is to include a five-year financial summary, an evaluation of the original intent and purpose of each fund or account, and the degree to which each fund or account achieves its stated purpose. These reviews are scheduled so that the funds and accounts administered by each state department will be reviewed once every five years. This is our second review of the revolving funds, trust funds, and trust accounts of the Office of the Governor, Department of Education, and Office of Hawaiian Affairs and our first review of the Office of the Lieutenant Governor and Hawaii State Public Library System.

Revolving funds are often established with an appropriation of seed money from the general fund. Revolving funds must demonstrate the capacity to be self-sustaining. Activities commonly financed through revolving funds include loan programs that are initially established by general fund seed moneys and then replenished through the repayment of loans. *Trust funds* invoke a fiduciary responsibility of state government to care for and use the assets held for the benefit of those with a vested interest in the assets. A pension fund is an example of a trust fund. *Trust accounts* are typically a separate holding or clearing account for state agencies. A trust account is often used as an accounting device to credit or charge agencies or projects for payroll or other costs.

Of the 35 funds and accounts we reviewed this year, 7 were revolving funds, 18 were trust funds, and 10 were trust accounts. We used criteria developed by the Legislature and developed by our office from a review of public finance literature. The revolving funds, trust funds, and trust accounts must continue to serve the purpose for which they were created and not require continuing general fund appropriations. In addition, revolving funds must exhibit linkage between its benefits and charges and be an appropriate financing mechanism for the program or operation. A trust fund must also provide benefits or services for its intended beneficiaries and meet the statutory definition of a trust fund. For each fund or account reviewed, we present a five-year financial summary, the purpose of the fund or account, and conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We did not audit the agencies' financial data.

Recommendations and Response

We transmitted a draft of this review to the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawaii State Public Library System, and Office of Hawaiian Affairs. The Office of Hawaiian Affairs was the only agency to submit a written response to our draft report.

The Office of Hawaiian Affairs agreed with our review of their funds. The office agreed with our conclusion that the Mauna 'Ala Repository for Royal Native Hawaiian Remains Fund did not meet the criteria of a trust fund. Also, the office agreed with our comments regarding the Native Hawaiian Rights Fund and noted that remedial action is being taken to comply with our comments.

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A Report to the
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Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 02-05
February 2002

Foreword

This is a report of our review of revolving funds, trust funds, and trust accounts used by the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawaii State Public Library System, and Office of Hawaiian Affairs.

Section 23-12, Hawaii Revised Statutes (HRS), requires that the State Auditor review all existing revolving and trust funds every five years. These reviews are scheduled so that the funds administered by each state department will be reviewed once every five years. This is our second review of the revolving funds, trust funds, and trust accounts of the Office of the Governor, Department of Education, and Office of Hawaiian Affairs and our first review of the Office of the Lieutenant Governor and Hawaii State Public Library System.

We wish to acknowledge the cooperation extended to us by the officials and staff of the Office of the Governor, Office of the Lieutenant Governor, Department of Education, Hawaii State Public Library System, and Office of Hawaiian Affairs.

Marion M. Higa
State Auditor

Table of Contents

Chapter 1 Introduction

Background	1
Description of Revolving Funds, Trust Funds, and Trust Accounts	2
Criteria for Reviewing Revolving Funds, Trust Funds, and Trust Accounts	3
Objectives of the Review	4
Scope and Methodology	4

Chapter 2 Office of the Governor

Funds Established by the Legislature and the Judiciary	5
Account Established Under Administrative Authority	7

Chapter 3 Office of the Lieutenant Governor

Funds Established by the Legislature	9
Fund and Accounts Established Under Administrative Authority	11

Chapter 4 Department of Education and Hawaii State Public Library System

Department of Education Funds Established Under Statutory Authority	15
Funds Established Under Administrative Authority	18
Hawaii State Public Library System Accounts Established Under Administrative Authority	24

Chapter 5 Office of Hawaiian Affairs

Fund Established by the State Constitution	29
Funds Established Under Administrative Authority	30

Responses of the Affected Agencies 37

Chapter 1

Introduction

This is a report on our review of revolving funds, trust funds, and trust accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawaii State Public Library System, and Office of Hawaiian Affairs. Section 23-12, Hawaii Revised Statutes (HRS), requires that the State Auditor submit a review of revolving and trust funds every five years. These reviews are scheduled so that the funds administered by each state department will be reviewed once every five years. This is our second review of revolving funds, trust funds, and trust accounts of the Office of the Governor, Department of Education, and Office of Hawaiian Affairs. This is our first review of the funds and accounts administered by the Office of the Lieutenant Governor and Hawaii State Public Library System. Our first report, issued in 1996 (Report No. 96-21), reviewed 21 revolving and trust funds and a trust account. In this report, we reviewed a total of 35 revolving funds, trust funds, and trust accounts.

Background

In Act 240, Session Laws of Hawaii (SLH) 1990, the Legislature required our office to conduct a review of special and revolving funds and to recommend whether they be continued, modified, or repealed. The Legislature was concerned that the proliferation of these types of funds had diverted resources from the general fund and, as a result, had weakened the Legislature's control over public moneys. Moneys deposited to and spent from special and revolving funds are not subject to the same level of legislative scrutiny as those deposited to and expended from the general fund.

We completed our review of special and revolving funds required by Act 240 and presented the results of those reviews in five separate reports issued in 1991 and 1992. We reviewed 166 special and revolving funds and recommended that 70 be repealed, discontinued, or sunsetted in the future. We also found that many funds held cash balances far in excess of program needs and recommended that excess cash be transferred to the general fund.

In July 2001, we updated our 1992 review of special and revolving funds and presented the results of our reviews in Report No. 01-12. We found that 71 special and revolving funds had been repealed or discontinued. However, a majority (106 out of 166) of the funds previously reviewed were still in existence as of July 1, 1999.

Section 23-12, HRS, expands the concept of Act 240. Instead of special and revolving funds, Section 23-12 requires our office to review revolving and trust funds at least once every five years. The review is to include a five-year financial summary, an evaluation of the original intent and purpose of each fund, and the degree to which each fund achieves its stated purpose.

Description of Revolving Funds, Trust Funds, and Trust Accounts

Revolving Funds

Section 37-62, HRS, defines a revolving fund as one “from which is paid the cost of goods and services rendered or furnished to or by a state agency and which is replenished through charges made for the goods or services or through transfers from other accounts or funds.”

Revolving funds are often established with an appropriation of seed money from the general fund. Activities commonly financed through revolving funds include loan programs that are initially established with general fund seed moneys and then replenished through the repayment of loans. The State Motor Pool Revolving Fund is another example of a revolving fund. The fund purchases and maintains the State’s fleet of motor vehicles and is replenished by charges to state agencies for the use of the vehicles.

Trust Funds

Section 37-62, HRS, defines a trust fund as “a fund in which designated persons or classes of persons have a vested beneficial interest or equitable ownership, or which was created or established by a gift, grant, contribution, devise, or bequest that limits the use of the fund to designated objects or purposes.”

Trust funds invoke a fiduciary responsibility of state government to care for and use assets held for those who will benefit from the trust fund. A pension fund is one example of a trust fund. Contributions and payments deposited into the fund are held for the beneficiaries of the pension fund. Another example are tenants’ security deposits held in trust funds for the benefit of tenants and landlords. Until forfeited or returned, deposits are the property of the tenants and should be accounted for accordingly.

Trust Accounts

The Department of Accounting and General Services defines a trust account as a separate holding or clearing account for state agencies. A trust account is often used as an accounting device to credit or charge agencies or projects for payroll or other costs.

Criteria for Reviewing Revolving Funds, Trust Funds, and Trust Accounts

The criteria used to review revolving funds are essentially the same as in our prior review of special and revolving funds. Specifically, they are the extent to which each fund:

- Continues to serve the purpose for which it was originally created;
- Reflects a clear link between the benefit sought and charges made upon the users or beneficiaries of the program, as opposed to serving primarily as a means to provide the program or users with an automatic means of support that is removed from the normal budget and appropriations process;
- Demonstrates the capacity to be financially self-sustaining; and
- Is an appropriate financing mechanism for the program or operation.

The first and second criteria were taken from Act 240, SLH 1990. The third and fourth criteria were developed by our office from a review of public finance literature.

The criteria used to review trust funds are the extent to which each fund:

- Continues to serve the purpose for which it was originally created;
- Provides the benefits or services originally intended to the beneficiaries;
- Requires no general fund appropriation; and
- Meets the definition of a trust fund.

The first two criteria were taken from the first two objectives of Section 23-12, HRS, which asks for (1) an evaluation of the original intent of each fund, and (2) the degree to which each fund achieves its stated purpose. The third criterion assesses whether the fund depends upon general fund appropriations. If general fund appropriations are needed to finance the fund's activities (as opposed to providing seed moneys only), classification of the fund as a trust fund may not be warranted. The fourth criterion assesses whether the fund is held by the State for the benefit of those with a vested interest in the assets.

Similar criteria are used for the review of trust accounts. These are the extent to which each account:

- Continues to serve the purpose for which it was created; and
- Requires no general fund appropriation.

We also reviewed performance standards established by each agency for its fund(s) and account(s), if available.

Objectives of the Review

1. Identify and review each of the revolving funds, trust funds, and trust accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education, Hawaii State Public Library System, and Office of Hawaiian Affairs.
2. Provide a five-year fiscal summary for each fund or account reviewed.
3. Review fund performance standards as applicable.

Scope and Methodology

This review examines those revolving funds, trust funds, and trust accounts administered by or administratively attached to the Office of the Governor, Office of the Lieutenant Governor, Department of Education, Hawaii State Public Library System, and Office of Hawaiian Affairs during the five-year period under review. We reviewed funds and accounts established by statute and those established by administrative authority.

We researched statutes, session laws, legislative history, and other supporting documents to determine each fund or account's intent and purpose. We also reviewed performance standards established by the agencies and other documents as appropriate. A total of five funds and one account reported the existence of performance standards specific to the fund or account.

To gain an understanding of fund operations, we obtained information from key fiscal and program personnel. We did not audit the agencies' financial data and it is provided only for informational purposes. In reviewing each fund or account, we applied the criteria as explained in this chapter. Furthermore, the FY1995-96 ending balances included in our previous report were estimates provided by the Office of the Governor, Department of Education, and Office of Hawaiian Affairs and may not correspond to the FY1996-97 beginning balances contained in this report. Transfers are reported as a net amount for each respective year.

Our work was performed from May 2001 to December 2001 in accordance with generally accepted government auditing standards.

Chapter 2

Office of the Governor

This chapter presents the results of our review of two trust funds and one trust account used by the Office of the Governor. For each fund or account, we present a five-year financial summary, the purpose of the fund or account, and conclusions about its use. We do not provide any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present alphabetically first the funds established by the Legislature and the Judiciary, followed by the account established by administrative authority.

Funds Established by the Legislature and the Judiciary

Columbian Quincentennial Observance Trust Fund, Act 175, SLH 1990

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$16	\$16	\$16	\$16	\$16
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers*	0	0	0	0	(16)
Ending Fund Balance	\$16	\$16	\$16	\$16	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

* Transfer-out reflects the dissolution of this fund.

This trust fund was established in 1990 to support the activities of the Commission on the Columbian Quincentennial Observance. The temporary commission's purpose was to prepare a program to observe the 500th Anniversary of Christopher Columbus' arrival in the new world and to promote community understanding of cultural, political, scientific, and other transformations from exploration, encounter, and exchange in the world. Revenues for this fund were derived from community and corporate donations. Expenditures from this fund included the costs of producing a book entitled "Discovery," radio air time advertisements, and bus poster advertisements of the observance. This fund meets the definition of a trust fund, has not received general fund appropriations, has served the purpose for which it was originally created, and has provided benefits to the intended beneficiaries—the general public. The commission ceased to operate after FY1992-93, the remaining balance was transferred to the general fund in FY2000-01, and the fund was closed.

Shippers' Wharf Committee Fund, Third Circuit Court Order

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$1,158	\$1,229	\$1,272	\$1,321	\$1,393
Revenues	0	0	0	0	0
Interest	71	114	112	119	120
Expenditures	0	(71)	(63)	(47)	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$1,229	\$1,272	\$1,321	\$1,393	\$1,513
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was established in 1954, after the dissolution of the Shippers' Wharf Committee, an unincorporated association in Hilo, Hawaii. The committee was organized in 1904 to receive and administer voluntary contributions from importers on the island of Hawaii to combat plague and promote public health and safety on that island. In 1941, the funds were declared to be trust funds by the Fourth Circuit Court. In 1953, the Third Circuit Court, which merged with the Fourth Circuit Court in 1943, ordered that, upon the dissolution of the Shippers' Wharf Committee, the remaining funds be transferred to the Territory of Hawaii and administered by the governor. The purposes of the trust fund at that time were to safeguard public health and improve public sanitation, prevent the spread of and remove possible causes of dangerous epidemics and diseases, provide public disaster relief, and promote public safety on the island of Hawaii.

In April 2001, by judgment of the Third Circuit Court, the responsibility to administer the trust fund was transferred from the Office of the Governor to the director of finance. Interest generated by the fund through investments has been more than sufficient to cover operating expenses. Money is currently transferred from the fund to the Department of Health's Environmental Health Services Division, which uses the money to cover the costs of controlling organisms, such as disease-transmitting insects, on the island of Hawaii. The fund continues to serve the purpose for which it was originally created and continues to serve the intended beneficiaries—Hawaii residents. The fund does not receive general fund appropriations and meets the criteria of a trust fund.

Account Established Under Administrative Authority

Governor's Volunteer Programs and Services Account

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$4	\$17	\$32	\$19	\$38
Revenues	41	20	16	117	86
Interest	0	0	0	0	0
Expenditures	(28)	(5)	(29)	(98)	(50)
Transfers	0	0	0	0	0
Ending Fund Balance	\$17	\$32	\$19	\$38	\$74
Encumbrances	\$0	\$0	\$0	\$0	\$0

This trust account was administratively established in 1983 to promote volunteerism in Hawaii and support the Kilohana program, which recognizes outstanding volunteers throughout the state. Revenues for this account are generated through community donations, primarily from corporations. Trust account funds are used for expenses related to holding conferences, workshops, and recognition ceremonies on Oahu and the neighbor islands. This account does not require general fund appropriations, continues to serve the purpose for which it was created, and meets the criteria of a trust account.

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Chapter 3

Office of the Lieutenant Governor

This chapter presents the results of our review of three trust funds and two trust accounts used by the Office of the Lieutenant Governor. For each fund or account, we present a five-year financial summary, the purpose of the fund or account, and conclusions about its use. We do not provide any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present alphabetically first the funds established by the Legislature, followed by the fund and accounts established by administrative authority. The administratively established accounts were created pursuant to specific statutes, which are indicated next to the applicable account's name.

Funds Established by the Legislature

Commission on the Status of Women Trust Fund, Act 270, SLH 2000

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$0	\$5	\$12	\$104	\$74
Revenues	5	7	119	115	161
Interest	0	0	0	0	0
Expenditures	0	0*	(27)	(145)	(60)
Transfers	0	0	0	0	0
Ending Fund Balance	\$5	\$12	\$104	\$74	\$175
Encumbrances	\$0	\$0	\$0	\$0	\$0

* Balance represents an amount that is greater than \$0 but less than \$500.

This trust fund was established to provide a stable economic base for present programs and future expansion of programs. Revenues are from grants offered by state, national, and federal sources, as well as private organizations and agencies. Expenditures from this fund are intended to support the Hawaii State Commission on the Status of Women's programs and activities. The commission's goal is to ensure full and equal coverage under the law for all females by informing governmental and non-governmental agencies and the public of women's rights, opportunities, and responsibilities. It advocates for the enactment or revision of laws and policies that eliminate gender discrimination and identifies and supports programs and projects that address women's concerns and needs. The commission's major projects are Women's Health Month, which began in 1994, and various initiatives for the

prevention of violence against women. The key beneficiaries of these projects are women in general, with a targeted population of abused women and those who may become perpetrators of violence against women. The fund does not require general fund appropriations and continues to serve the purpose for which it was created. It meets the criteria of a trust fund.

Hawaii Election Campaign Fund, Section 11-217, HRS

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$4,033	\$4,733	\$4,941	\$4,989	\$4,840
Revenues	541	30	593	90	401
Interest	208	256	225	147	301
Expenditures	(100)	(65)	(766)	(375)	(570)
Transfers*	51	(13)	(4)	(11)	(1)
Ending Fund Balance	\$4,733	\$4,941	\$4,989	\$4,840	\$4,971
Encumbrances	\$0	\$0	\$0	\$0	\$0

* Net transfers included: 1) transfers-in from the Campaign Spending Commission Investigator and Campaign Spending Commission Computer Network accounts and 2) transfers-out to Hawaii Correctional Industries for printing and the Department of Budget and Finance and the Department of Accounting and General Services for phone charges.

This trust fund was established in 1979 to receive moneys collected from Hawaii taxpayers who designated \$2 of their income tax liability to the fund. The fund also receives other moneys, such as administrative fines and earned interest, and received general fund appropriations through FY1997-98. The primary purpose of the fund is to provide partial matching campaign contributions to candidates for elected office who qualify and apply for funding as provided by Section 11-222, HRS. The fund continues to serve the purpose for which it was originally created. It directly benefits its users—qualified candidates for public office.

In addition to providing matching public funds, the fund has also paid for the administration and operations of the Campaign Spending Commission since FY1997-98. Currently, there are five full-time members who staff the commission. The duties of the commission, detailed in Section 11-193, HRS, are primarily to regulate the campaign finances of candidates for elected state and county offices. The fund has performance standards. The fund is operating as intended, is self-sustaining, and has not received general fund appropriations since FY1998-99. It meets the criteria of a trust fund.

Fund and Accounts Established Under Administrative Authority

Donation for Voter Registration Drive

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$0*	\$0*	\$0*	\$0*	\$0*
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$0*	\$0*	\$0*	\$0*	\$0*
Encumbrances	\$0	\$0	\$0	\$0	\$0

* Balance represents an amount that is greater than \$0 but less than \$500.

In 1984, a trust fund was established for the Office of the Lieutenant Governor for the deposit of monetary donations from businesses, community organizations, and private individuals for a voter registration campaign and educational programs for the 1984 elections. In 1987, the office continued to use the fund to deposit donations received to purchase items for a statewide voter slogan contest. The contest was held to encourage eligible citizens of Hawaii to register and vote and to increase participation in the upcoming election(s). The contest was open to all Hawaii residents, ages 5 and above. Funds were used to purchase contest prizes, such as U.S. Savings Bonds and other gifts, for contest winners. The voter slogan contest was held in 1987, 1989, and 1991. Although a voter slogan contest has not been held since 1991, the fund is still maintained.

The fund was first established and managed by the Office of the Lieutenant Governor because the lieutenant governor served as the chief election officer. Since the lieutenant governor no longer serves as chief election officer, the Office of Elections now manages the account. The fund meets the criteria of a trust fund. It does not receive general fund appropriations and continues to serve the purpose for which it was created.

Campaign Spending Commission Computer Network, Act 10, Special SLH 1995

Financial Data for Fiscal Years 1997-1998 (in thousands)

	FY1997	FY1998
Beginning Fund Balance	\$5	\$0**
Revenues	0	0
Interest	0	0
Expenditures	(5)	0
Transfers*	0	(0)**
Ending Fund Balance	\$0**	\$0
Encumbrances	\$0	\$0

* Transfer-out was to the Hawaii Election Campaign Fund.

** Balance represents an amount that is greater than \$0 but less than \$500.

This trust account was established in 1995 with an appropriation of \$50,000 from the Hawaii Election Campaign Fund to develop the Hawaii Electronic Reporting and Tracking System. The development of the system would enable campaign committees to periodically report campaign revenues and expenditures electronically, rather than manually, during a campaign. This would benefit candidates, especially those for the offices of governor or mayor, who must report thousands of pages of contributions and expenditures. The general public and voters benefit from this system because disclosures by candidates would be available in a timely and accurate manner. The contracted development of the software with expected outcomes and appropriate time frames was tested and delivered in a timely manner, meeting performance standards. The trust account served the purpose for which it was originally created and did not require any general fund appropriations. In FY1997-98, the account was closed and its remaining balance was transferred back to the Hawaii Election Campaign Fund. The account served the intended beneficiaries—candidates for office and the general public, and met the criteria of a trust account.

Campaign Spending Commission Investigator, Act 10, Special SLH 1995

Financial Data for Fiscal Year 1997 (in thousands)

FY1997	
Beginning Fund Balance	\$51
Revenues	0
Interest	0
Expenditures	0
Transfers*	(51)
Ending Fund Balance	\$0
Encumbrances	\$0

* Transfer-out was to the Hawaii Election Campaign Fund.

This trust account was established in FY1995-96 with an appropriation of \$70,000 from the Hawaii Election Campaign Fund to employ one investigator to carry out enforcement responsibilities for the Campaign Spending Commission. The public, particularly the voters, would be the beneficiaries of the fund's expenditures, as they would be assured of compliance with campaign finance laws. An agreement between the Department of the Attorney General and the commission allowed the attorney general to hire a qualified attorney to carry out the requirements of the commission. However, the agreement was terminated before the end of the year, and only a fraction of the \$70,000 appropriation was expended. In FY1996-97, the account was closed and its remaining balance was transferred back to the Hawaii Election Campaign Fund. This account did not require general fund appropriations, served the purpose for which it was created, and met the criteria of a trust account.

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Chapter 4

Department of Education and Hawaii State Public Library System

This chapter presents the results of our review of six revolving funds and eight trust funds used by the Department of Education (department). Also presented are seven trust accounts used by the Hawaii State Public Library System. For each fund or account, we present a five-year financial summary, the purpose of the fund or account, and conclusions about its use. We do not provide any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present alphabetically first the funds established by statutory authority, followed by funds and accounts established by administrative authority. Certain funds established by administrative authority were created pursuant to specific statutes, which are indicated next to the applicable fund's name.

Department of Education Funds Established Under Statutory Authority

Adult Education Revolving Fund, Section 302A-435, HRS

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$227	\$330	\$427	\$525	\$577
Revenues	483	581	628	689	770
Interest	0	0	0	0	0
Expenditures	(380)	(484)	(530)	(637)	(732)
Transfers	0	0	0	0	0
Ending Fund Balance	\$330	\$427	\$525	\$577	\$615
Encumbrances	\$15	\$4	\$10	\$21	\$18

This fund was created in 1970 to receive fees assessed for adult education courses. Moneys collected are used to purchase supplies and books for the Adult and Community Education Program. The fund operates as intended and is an appropriate funding mechanism for the program. Benefits received are directly related to user fees collected because adult students who are assessed fees benefit from the purchase of supplies and books. The fund, however, is not self-sustaining. General funds supplement the student fees collected to cover personnel and operating costs. The adult education program is also partially financed by the Adult Education Special Fund. The fund does not meet the criteria of a revolving fund.

Federal Grants Search, Development, and Application Revolving Fund, Section 302A-1405, HRS

Financial Data for Fiscal Year 2001 (in thousands)

	FY2001
Beginning Fund Balance	\$0
Revenues	222
Interest	0
Expenditures	0
Transfers	0
Ending Fund Balance	\$222
Encumbrances	\$0

This fund was created in FY2000-01 to receive reimbursements or the recovery of administrative or central services costs incurred by the department in carrying out federal grant awards through assessment of an indirect cost rate as authorized by the federal government. This fund captures the indirect costs for discretionary competitive grants awarded to the department by federal agencies. Fund revenues come from an indirect overhead assessment against expenditures of the federal discretionary grants. The fund is not limited to search and development applications but can be used for administrative purposes, such as developing program applications to secure additional revenues for the department. The fund can also be used for consultant services and operational expenses, including the hiring of temporary staff to administer the fund. It should serve the purpose for which it was created—to secure additional revenues for the department. The fund requires no general fund appropriations and should serve the intended beneficiaries. It meets the criteria of a revolving fund.

Hawaii Teacher Standards Board Revolving Fund, Section 302A-806, HRS

Financial Data for Fiscal Years 1998-2001 (in thousands)

	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$0	\$319	\$700	\$1,120
Revenues	431	591	595	625
Interest	0	0	0	0
Expenditures	(112)	(210)	(175)	(248)
Transfers	0	0	0	0
Ending Fund Balance	\$319	\$700	\$1,120	\$1,497
Encumbrances	\$8	\$50	\$72	\$309

This fund was created in 1998 to support the Hawaii Teacher Standards Board. The board establishes standards governing teacher licensing and credentialing within the department, conducts a cyclical review of those standards, and suggests revisions for their improvement. The fund finances operational and personnel costs and any reimbursements for members' travel expenses incurred while on official board business. The fund continues to serve the purpose for which it was created. The primary source of revenue to the fund is the \$2 licensing fee deducted from teachers' salaries. There is a clear link between the benefit sought and the charges made upon its users because the teachers receive training and current informational communications related to improvements in professional standards for licensing and credentialing. This fund is self-sustaining; however, it acts more like a special fund than a revolving fund and should be so classified.

Non-Appropriated Local School Fund, Section 302A-1130, HRS

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$6,978	\$7,961	\$9,291	\$10,384	\$11,188
Revenues	21,117	25,214	25,679	26,485	23,308
Interest	0	0	0	0	0
Expenditures	(20,134)	(23,884)	(24,586)	(25,681)	(22,601)
Transfers	0	0	0	0	0
Ending Fund Balance	\$7,961	\$9,291	\$10,384	\$11,188	\$11,895
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was created in 1982 to account for money held in trust by the schools. Section 302A-1130, HRS, authorizes the department to assess and collect special fees and charges from students for co-curricular activities. Funds are deposited into insured checking or savings accounts and expended by individual schools. Sources of funds include collections from class dues, student association dues, yearbook fees, newspaper fees, school club dues, money-raising funds, excursion fees, and donations. This fund continues to serve its intended purpose and requires no general fund appropriations. It also meets the criteria of a trust fund and provides the services originally intended to its beneficiaries.

Storeroom Revolving Fund, Section 302A-1304, HRS

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$400	\$1,201	\$753	\$597	\$796
Revenues	2,319	2,276	1,808	1,849	1,987
Interest	0	0	0	0	0
Expenditures	(1,518)	(2,308)	(1,964)	(1,650)	(2,118)
Transfers*	0	(416)	0	0	(101)
Ending Fund Balance	\$1,201	\$753	\$597	\$796	\$564
Encumbrances	\$385	\$473	\$428	\$293	\$175

* Transfers-out were made to the general fund.

This fund was created in 1990 to purchase educational, office, and custodial supplies used by schools and the equipment and services needed to operate the department's storeroom. The fund continues to serve the purpose for which it was created. There is a direct link between the benefits sought and the charges made upon users because public schools use the items purchased from the storeroom. However, the storeroom is not self-sustaining. General fund appropriations pay for personnel and all operating costs of the storeroom. The fund does not meet the criteria of a revolving fund.

Funds Established Under Administrative Authority

Alu Like Trust Fund

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$10	\$19	\$46	\$131	\$181
Revenues	145	203	439	590	539
Interest	0	0	0	0	0
Expenditures	(136)	(176)	(354)	(540)	(500)
Transfers	0	0	0	0	0
Ending Fund Balance	\$19	\$46	\$131	\$181	\$220
Encumbrances	\$12	\$42	\$42	\$86	\$99

This fund was established in 1992 to account for moneys received through a memorandum of agreement with Alu Like, Inc.'s Native Hawaiian Vocational Education Program. Through the Carl D. Perkins Vocational and Applied Technology Education Act of 1990, the U.S. Department of Education grants federal funds to Alu Like, Inc. Alu Like uses a portion of the federal funds for the department's vocational education services for native Hawaiians in the Windward, Central,

Leeward, Maui, and Hawaii districts. Educational projects provide career education counseling for students, staff development programs, and curriculum development of vocational education programs. Past projects include Kailua High School's Project Kako'o, Waialua High School's Projects Yikes! Bikes and Ho'olaulima, Waianae High School's Hawaiian Seariders, Molokai High and Intermediate School's Hawaii Alive Project, Kealakehe High School's Project Waveriders, and Honokaa High School's Project Keoki. The fund has performance standards and programs are monitored on a test basis. The fund continues to serve the purpose for which it was created and the intended beneficiaries—native Hawaiians in Windward, Central, Leeward, Maui, and Hawaii district public schools. The fund does not require any general fund appropriations and meets the criteria of a trust fund.

Athletic Trust Fund

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$297	\$396	\$485	\$408	\$303
Revenues	479	596	677	715	783
Interest	0	0	0	0	0
Expenditures	(380)	(507)	(754)	(820)	(823)
Transfers	0	0	0	0	0
Ending Fund Balance	\$396	\$485	\$408	\$303	\$263
Encumbrances	\$79	\$84	\$30	\$14	\$72

This fund was established over 30 years ago to account for funds collected from athletic event-related activities. The fund serves one intermediate and 35 high school athletic departments. Sources of revenues include admission fees collected from various sporting events, activity book sales, and donations to public school athletic programs. Beneficiaries are students participating in sports activities at the schools. Funds are expended for supplies, equipment, travel, and other expenses for various sports programs at the schools. The fund serves the purpose for which it was created and provides services to the intended beneficiaries—student athletes at the public schools. It requires no general fund appropriations and meets the criteria of a trust fund.

Donations and Gifts Trust Fund

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$344	\$375	\$453	\$550	\$527
Revenues	299	261	378	405	524
Interest	0	0	0	0	0
Expenditures	(268)	(183)	(281)	(428)	(309)
Transfers	0	0	0	0	0
Ending Fund Balance	\$375	\$453	\$550	\$527	\$742
Encumbrances	\$17	\$50	\$49	\$18	\$50

This fund was established in 1961 to account for donations made to the schools for specific purposes. Donations are held in trust for students and schools named by the donor. Past donations have included grants in support of The Waianae Coast May Experience, Drug-Free Hawaii, and literacy programs. This fund meets the criteria of a trust fund, requires no general fund support, and continues to serve the purpose for which it was created. Funds are held in trust for public schools and students to be used for purposes specified by the donors.

Federal Revenue Maximization Fund

Financial Data for Fiscal Years 1999-2001 (in thousands)

	FY1999	FY2000	FY2001
Beginning Fund Balance	\$0	\$10	\$10
Revenues	10	0	0
Interest	0	0	0
Expenditures	0	0	0
Transfers	0	0	0
Ending Fund Balance	\$10	\$10	\$10
Encumbrances	\$0	\$0	\$0

Pursuant to Act 11 of the 1995 Special Session, a statewide fund was established in the state treasury to aggressively pursue, collect, and distribute additional federal fund reimbursements. Proceeds collected from the federal government that were not previously claimed by the State for federally funded programs are deposited into the fund. Federally funded state programs include those within the Departments of Human Services, Education, and Health. The comptroller makes expenditures and transfers from the fund in proportional allocations established by the comptroller and the director of finance. The comptroller transfers money out of the Interagency Federal Maximization Revolving Fund to the department for expenses related to

federal fund reimbursement claims. Funds transferred by the comptroller to the department are deposited into this account and may be expended for contracted consultant services to pursue further maximization of federal dollar reimbursements.

No expenditures have been made from this fund; therefore, we could not assess if the fund is meeting its intended purpose nor could we determine if it is self-sustaining. Also, there is no linkage between the benefit sought and charges made upon users. This fund does not meet the criteria of a revolving fund.

Foundation and Other Grants Trust Fund

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$1,038	\$1,242	\$977	\$946	\$867
Revenues	1,522	180	576	730	1,081
Interest	0	0	0	0	0
Expenditures	(1,318)	(445)	(607)	(809)	(723)
Transfers	0	0	0	0	0
Ending Fund Balance	\$1,242	\$977	\$946	\$867	\$1,225
Encumbrances	\$417	\$244	\$137	\$15	\$230

This fund was established in 1961 to account for grants received from foundations, other non-profit organizations, and other state agencies for various projects. Beneficiaries of this fund are the students named by the grants and projects. Past grants have supported career-oriented field trips for students from the Waianae coast, JROTC Program, Healthy Kapolei Initiative, and Parent/Student Literacy Program. This fund continues to serve the purpose for which it was originally created and its intended beneficiaries. The fund receives no general fund appropriations and meets the criteria of a trust fund.

Hurricane Iniki Insurance Proceeds Revolving Fund

Financial Data for Fiscal Years 1997-1998 (in thousands)

	FY1997	FY1998
Beginning Fund Balance	\$16	\$5
Revenues	0	0
Interest	0	0
Expenditures	(11)	(5)
Transfers	0	0
Ending Fund Balance	\$5	\$0
Encumbrances	\$0	\$0

This fund was created in 1993 to receive insurance proceeds from the Department of Accounting and General Services' risk management insurance settlement. The proceeds were used for temporary replacements for structures destroyed during Hurricane Iniki. The department leased modular classrooms, mobile classrooms, modular library units, kitchen trailers, dining units, and other school equipment with moneys from this revolving fund to allow schools to continue operating on a normal basis while repairs were being made. In 1996, we reported this fund did not meet the criteria of a revolving fund. All remaining funds were expended in FY1997-98 and the fund was subsequently closed out.

JTPA Work Hawaii Job Training Program Fund

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$1	\$1	\$4	\$13	\$25
Revenues	0	656	266	233	43
Interest	0	0	0	0	0
Expenditures	0	(653)	(257)	(221)	(63)
Transfers	0	0	0	0	0
Ending Fund Balance	\$1	\$4	\$13	\$25	\$5
Encumbrances	\$0	\$3	\$6	\$9	\$0

This fund was established in 1986 to account for funds received from the City and County of Honolulu to provide job training programs specified by the Job Training Partnership Act that was succeeded by the Workforce Investment Act (WIA) of 1998 (Public Law 105-220). The City and County of Honolulu entered into a memorandum of agreement with the Department of Labor and Industrial Relations, Workforce Development Division, to serve as fiscal agent for various programs under the Oahu Workforce Investment Board. Funds are used by the department to provide pre-employment and occupational skills training services for WIA-eligible youth residing in the City and County of Honolulu as part of a flexible, coordinated, and decentralized system of local programs that should maximize employment opportunities for participants. This fund continues to serve the purpose for which it was created, requires no general fund appropriations, and meets the criteria of a trust fund.

Office of Hawaiian Affairs Fund

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$28	\$72	\$178	\$338	\$118
Revenues	204	369	528	109	716
Interest	0	0	0	0	0
Expenditures	(160)	(263)	(368)	(329)	(339)
Transfers	0	0	0	0	0
Ending Fund Balance	\$72	\$178	\$338	\$118	\$495
Encumbrances	\$7	\$18	\$18	\$14	\$12

This fund was established in 1991 to account for grants received from the Office of Hawaiian Affairs (OHA) for tutorial and other educational projects at various schools. Projects focus on improving and uplifting educational conditions of students of Hawaiian ancestry. Approximately 1,400 students of Hawaiian ancestry at 28 elementary, intermediate, and high schools benefit from OHA educational grants every year. Past educational projects have included tutorial services emphasizing student literacy, vocabulary skills, reading, language arts, and mathematics. The fund continues to serve the purpose for which it was created and provides the services originally intended for beneficiaries—educational opportunities for students of Hawaiian ancestry. The fund does not receive any general fund appropriations and meets the criteria of a trust fund.

Olelo-Educational Program Public TV Fund

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$40	\$117	\$350	\$423	\$766
Revenues	342	557	364	652	433
Interest	0	0	0	0	0
Expenditures	(265)	(324)	(291)	(309)	(337)
Transfers	0	0	0	0	0
Ending Fund Balance	\$117	\$350	\$423	\$766	\$862
Encumbrances	\$14	\$24	\$6	\$4	\$55

This fund was established in 1992 to account for funds received under contract with Olelo: The Corporation for Community Television. Olelo is responsible for managing the public, educational, and governmental television channels established by the State. Olelo contracts with the department to provide educational programs to the community. A past

contract with the department is the Distance Learning Program. Funding from Olelo for the department's Distance Learning Program has enabled new and expanded programming created for and with the community. Beneficiaries of this program are students, adults, teachers, and the homebound. The general public also benefits from the cablecast of department meetings, programs, and other information about special events and activities. This fund meets the criteria of a trust fund, receives no general fund appropriations, and continues to serve its intended purpose and beneficiaries.

Hawaii State Public Library System Accounts Established Under Administrative Authority

Friends of the Library

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$4	\$3	\$3	\$3	\$3
Revenues	2	1	1	2	0
Interest	0	0	0	0	0
Expenditures	(3)	(1)	(1)	(2)	(0)**
Transfers*	0	0	0	0	0**
Ending Fund Balance	\$3	\$3	\$3	\$3	\$3
Encumbrances	\$0	\$0	\$0	\$0	\$0

* Transfer-in was from the Oahu Public Libraries-Donations & Gifts account.

** Balance represents an amount that is greater than \$0 but less than \$500.

This trust account was first established in 1974 as the Friends of the Library account to receive donations by the Friends of the Library of Hawaii to any library or section within the Hawaii State Public Library System. Funds can be used to purchase library books, materials, equipment, or services that would benefit the library and library patrons. This account meets the criteria of a trust account, as it serves the purpose for which it was originally created and requires no general fund appropriations.

Hawaii Public Library Payroll Collections

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$0	\$0**	\$0	\$0	\$0
Revenues	0**	0**	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers*	0	(0)**	0	0	0
Ending Fund Balance	\$0**	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

* Transfer-out was to the Department of Accounting and General Services to offset overpayments.

** Balance represents an amount that is greater than \$0 but less than \$500.

This trust account was established in 1996 as a temporary holding account to deposit partial collections of salary overpayments from employees. When the total overpayment is collected, funds are transferred to the Department of Accounting and General Services. This account meets the criteria of a trust account, as it serves the purpose for which it was originally created and requires no general fund appropriations.

Hawaii (County) Public Libraries-Donations & Gifts

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$6	\$6	\$8	\$7	\$9
Revenues	1	3	1	2	3
Interest	0	0	0	0	0
Expenditures	(1)	(1)	(2)	(0)**	(0)**
Transfers*	0	0	0	0	(1)
Ending Fund Balance	\$6	\$8	\$7	\$9	\$11
Encumbrances	\$0	\$0	\$0	\$0	\$0

* Transfer-out was to Oahu Public Libraries-Donations & Gifts Account.

** Balance represents an amount that is greater than \$0 but less than \$500.

This trust account was first established in FY1961-62 for the purpose of receiving donations by individuals or groups to the Hawaii (County) Public Libraries to purchase books, materials, equipment, or services. The Hawaii (County) Public Libraries-Donations & Gifts trust account provides library services and programs for the benefit of library patrons.

The account meets the criteria of a trust account, as it serves the purpose for which it was originally created and requires no general fund appropriations.

HSL & LBPH-Donations & Gifts

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$0**	\$0**	\$0**	\$0**	\$0**
Revenues	0	0	0	0	14
Interest	0	0	0	0	0
Expenditures	0	0	0	0	(15)
Transfers*	0	0	0	0	124
Ending Fund Balance	\$0**	\$0**	\$0**	\$0**	\$123
Encumbrances	\$0	\$0	\$0	\$0	\$0

* Transfer-in was from the Oahu Public Libraries-Donations & Gifts account.

** Balance represents an amount that is greater than \$0 but less than \$500.

This trust account was first established as the Donations for Transcribing Services account and was redesignated on July 1, 2000, as the HSL (Hawaii State Library) & LBPH (Library for the Blind & Physically Handicapped)-Donations & Gifts account. The account originally received donations from individuals or groups to the LBPH to purchase supplies and equipment for Braille transcribing services. As of July 1, 2000, this account was redesignated to include donations for the LBPH and the HSL. The account provides library services, programs, and Braille transcribing services based on donations from individuals or groups for the benefit of library patrons. This account meets the criteria of a trust account, as it serves the purpose for which it was redesignated and requires no general fund appropriations.

HSPLS Computer Supplies-Donations

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$1	\$1	\$2	\$2	\$2
Revenues	0**	2	1	0	8
Interest	0	0	0	0	0
Expenditures	(0)**	(1)	(1)	0	(2)
Transfers*	0	0	0	0	16
Ending Fund Balance	\$1	\$2	\$2	\$2	\$24
Encumbrances	\$0	\$0	\$0	\$0	\$0

* Net transfers included: 1) transfer-in from Oahu Public Libraries-Donations & Gifts account and 2) transfer-out to Kauai & Maui Public Libraries-Donations & Gifts account.

** Balance represents an amount that is greater than \$0 but less than \$500.

This trust account was first established in FY1961-62 as the Maui Public Library-Donations & Gifts trust account and was redesignated on July 1, 2000 as the HSPLS (Hawaii State Public Library System) Computer Supplies-Donations account. The account receives donations from individuals or groups to libraries to replenish supplies of computer printer paper and toner for state libraries. This account requires no general fund appropriations and serves the purpose for which it has been redesignated. It meets the criteria of a trust account.

Kauai & Maui Public Libraries-Donations & Gifts

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$0**	\$0**	\$0**	\$0**	\$0**
Revenues	0	0	0	0	4
Interest	0	0	0	0	0
Expenditures	0	0	0	0	(1)
Transfers*	0	0	0	0	2
Ending Fund Balance	\$0**	\$0**	\$0**	\$0**	\$5
Encumbrances	\$0	\$0	\$0	\$0	\$0

* Transfer-in was from the HSPLS Computer Supplies-Donations account.

** Balance represents an amount that is greater than \$0 but less than \$500.

This trust account was first established in FY1961-62 as the Kauai Public Library-Donations & Gifts trust account. On July 1, 2000, it was redesignated as the Kauai & Maui Public Library-Donations & Gifts trust account. The account receives donations from individuals or

groups to libraries on Kauai and Maui to purchase books, materials, equipment, or services for the purposes of providing programs and services to library patrons. The account serves the purpose for which it was redesignated and requires no general fund appropriations. It meets the criteria of a trust account.

Oahu Public Libraries-Donations & Gifts

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$328	\$336	\$338	\$361	\$415
Revenues	16	18	29	68	16
Interest	0	0	0	0	0
Expenditures	(8)	(16)	(6)	(14)	(37)
Transfers*	0	0	0	0	(142)
Ending Fund Balance	\$336	\$338	\$361	\$415	\$252
Encumbrances	\$0	\$0	\$0	\$0	\$0

* Net transfers included: 1) transfers-out to HSPLS Computer Supplies-Donations, Friends of the Library, and HSL & LBPH-Donations & Gifts accounts and 2) transfer-in from Hawaii (County) Public Libraries-Donations & Gifts account to correct a bill coding error.

This trust account was first established in FY1961-62 as the Library of Hawaii-Donations & Gifts trust account. On July 1, 2000, the account was redesignated as the Oahu Public Libraries-Donations & Gifts trust account. The account receives donations from individuals or groups for libraries to purchase books, materials, equipment, or services for the purposes of providing programs and services to library patrons. The account serves the purpose for which it was redesignated and requires no general fund appropriations. It meets the criteria of a trust account.

Chapter 5

Office of Hawaiian Affairs

This chapter presents the results of our review of five trust funds and one revolving fund used by the Office of Hawaiian Affairs (OHA). For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We do not provide any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present alphabetically first the fund established by the State Constitution, followed by the funds established by administrative authority.

Fund Established by the State Constitution

Public Land Trust, Hawaii State Constitution, Article XII, Section 4

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$206,740	\$224,119	\$257,331	\$294,393	\$330,090
Revenues	7,208	15,110	15,182	8,303	6,027
Interest	19,401	27,613	32,121	39,299	12,026
Expenditures	(1,380)	(1,236)	(1,636)	(2,409)	(1,517)
Transfers*	(7,850)	(8,275)	(8,605)	(9,496)	(9,695)
Ending Fund Balance	\$224,119	\$257,331	\$294,393	\$330,090	\$336,931
Encumbrances	\$2,374	\$2,148	\$3,946	\$4,377	\$4,220

* Net transfers included: 1) transfers-out to OHA's accounts held by the Department of General Accounting and Services for operating and program expenses and other matching requirements such as those made to the Native Hawaiian Revolving Loan Fund and 2) transfer-in from the Mauna 'Ala Repository for Royal Native Hawaiian Remains Fund.

This fund was established in 1981 to account for the Office of Hawaiian Affairs' portion of revenues derived from the public land trust as defined in Section 10-2, HRS. OHA receives 20 percent of all revenue derived from the public land trust. Revenue derived from the public land trust is expended by OHA, as approved by the Board of Trustees, for the betterment of native Hawaiian conditions.

On September 12, 2001, Hawaii's Supreme Court in *OHA v. State of Hawaii* held that sections in the law defining the means by which ceded lands' revenues are to be paid to OHA conflicted with federal law and therefore, were invalid. This resulted in the dismissal of OHA's claim for a pro rata share of ceded land revenues from the State for moneys owed from various projects situated on ceded lands and from interest

earned on withheld revenues. It is also expected that future ceded land payments from the State to OHA will cease until a new law can be passed by the State Legislature defining how ceded land revenues will be calculated and paid to OHA on behalf of its beneficiaries.

For the purposes of this report, all accounts funded with public land trust funds (as legislatively and board mandated) were combined to show the total revenues and expenditures related to the public land trust. Act 176, SLH 1996, changed the designation of public land trust funds from “special funds” to “trust funds.” The fund is operating as intended and has performance standards. The public land trust, also known as OHA’s Native Hawaiian Trust Fund, continues to serve the purpose for which it was created and provides the benefits and services originally intended to the native Hawaiian beneficiaries. The fund requires no general fund appropriations and meets the criteria of a trust fund.

Funds Established Under Administrative Authority

Affordable Housing Program

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$101	\$220	\$185	\$120	\$64
Revenues	600	0	0	0	0
Interest	1	0	0	0	0
Expenditures	(30)	(35)	(65)	(56)	(19)
Transfers*	(452)	0	0	0	0
Ending Fund Balance	\$220	\$185	\$120	\$64	\$45
Encumbrances	\$220	\$185	\$120	\$63	\$45

* Transfer-out was for architect services for an Affordable Housing project.

This fund was established in 1995 to receive revenues for the Office of Hawaiian Affairs’ Waimanalo Kupuna Housing construction project. An initial \$100,000 was received from the Federal Home Loan Bank of Seattle’s Affordable Housing Program. The housing project, currently in the pre-development stage, is intended to be an active retirement community for Hawaiian elderly in Waimanalo. Located on a seven-acre parcel of the Department of Hawaiian Home Lands, the community will consist of clustered living units for low and moderate-income elderly Hawaiians, landscaped grounds, a multi-purpose community center, and a marketplace. During 1997, the name of this fund was changed from Waimanalo Kupuna Project Fund to Affordable Housing program. This was done to increase the scope of the fund when the Office of Hawaiian Affairs received another grant award to subsidize self help housing projects in Kekaha and Waiakea. The fund continues to serve the purpose for which it was created—to receive grant revenues for housing

projects. This fund requires no general fund appropriations and continues to serve the intended beneficiaries. It meets the criteria of a trust fund.

Hawaiian Projects Fund

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$104	\$136	\$191	\$197	\$222
Revenues	75	70	70	36	20
Interest	0	0	0	0	0
Expenditures	(43)	(15)	(64)	(11)	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$136	\$191	\$197	\$222	\$242
Encumbrances	\$13	\$5	\$0	\$0	\$0

This fund was established in 1987 to receive revenues from the sale of goods or services directed at the Hawaiian community. Major revenue sources for this fund include sales of advertising space in OHA's monthly newspaper, *Ka Wai Ola O OHA*; OHA's portion of proceeds from the sale of publications or books; and private donations designated for OHA's programs. The fund supplements the costs of OHA's program activities such as printing of the monthly newspaper, public information products such as books and videos, equipment to produce public information videos, and software related to special projects. This fund also supplements the costs for special projects related to OHA's programs, as determined by OHA's administrator. This fund is being used as intended, does not require general fund appropriations, and continues to provide services to the intended beneficiary—the Hawaiian community. This fund meets the criteria of a trust fund.

Mauna 'Ala Repository for Royal Native Hawaiian Remains Fund

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$413	\$413	\$0	\$0	\$0
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	(207)	0	0	0
Transfers*	0	(206)	0	0	0
Ending Fund Balance	\$413	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

* Transfer-out was made to return moneys to the Public Land Trust.

This trust fund was established in 1992, in agreement with the Department of Land and Natural Resources (DLNR), to account for funds received for the design and construction of a facility at Mauna 'Ala to store royal native Hawaiian remains. A general fund appropriation of \$200,000 was initially provided to DLNR pursuant to Act 296, Section 107, SLH 1991. The Legislature stipulated that no funds could be expended unless the appropriation was matched by the Office of Hawaiian Affairs. The OHA matching requirement was satisfied through the transfer of OHA public land trust funds in FY1992-93. OHA and DLNR have entered into a cooperative joint venture to plan, design, and construct the repository for two ka'ai (sennit caskets) containing the remains of two deified royal native Hawaiians moved from the island of Hawaii by the Kamehamehas. There have been no expenditures from this fund. In February 1994, the ka'ai were removed from the Bishop Museum and have not yet been located. Per the letter of agreement with DLNR dated June 21, 1991, the unused funds, including interest, in the amount of \$207,000 were returned. This fund does not meet all the criteria of a trust fund because it required an initial general fund appropriation.

Native Hawaiian Revolving Loan Fund

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$10,028	\$11,735	\$12,077	\$13,657	\$14,221
Revenues	1,000	163	1,837	0	1,000
Interest	357	459	489	448	653
Expenditures	(650)	(1,280)	(746)	116	(285)
Transfers*	1,000	1,000	0	0	0
Ending Fund Balance	\$11,735	\$12,077	\$13,657	\$14,221	\$15,589
Encumbrances	\$0	\$0	\$0	\$0	\$0

* Transfers-in from the Public Land Trust reflect OHA's matching of federal grant moneys.

Set up in 1988, the Native Hawaiian Revolving Loan Program is jointly funded by OHA and a series of seven grants from the U.S. Administration for Native Americans. This loan program provides funds for the startup or expansion of Hawaiian-owned businesses that are unable to secure financing from conventional lending institutions or are unable to obtain small business training and technical assistance. In 1991, the OHA's Board of Trustees resolved to match, up to \$1 million, any federal grant funds with general and public land trust funds. The fund is an appropriate financing mechanism for the loan program and continues to serve the purpose for which it was originally created. The benefits sought and charges made upon the users are directly linked. Along with the repayments of loan principal, the fund also collects interest proceeds on the outstanding loan balances and invested funds, and any applicable loan fees. Hawaiian business entrepreneurs who cannot secure conventional financing are the direct beneficiaries of the loans that are disbursed from this fund. The fund is self-sufficient and requires no appropriations from the general fund. OHA has established certain performance standards for the fund. This fund meets the criteria of a revolving fund.

Native Hawaiian Rights Fund

Financial Data for Fiscal Years 1997-2001 (in thousands)

	FY1997	FY1998	FY1999	FY2000	FY2001
Beginning Fund Balance	\$234	\$178	\$241	\$131	\$170
Revenues	25	64	15	39	91
Interest	0	0	0	0	0
Expenditures	(81)	(1)	(125)	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$178	\$241	\$131	\$170	\$261
Encumbrances	\$4	\$0	\$0	\$0	\$0

This fund was established in 1987 to receive OHA's portion of legal fees recovered through settlements of Native Hawaiian Legal Corporation land title cases. The legal corporation provides legal services to native Hawaiians defending their property interests in quiet title actions (formal court actions by a land owner to extinguish and acquire an unclouded title). Typically, these actions are initiated against kuleana parcels (defined by Section 669-2, HRS, to be "land granted to native tenants pursuant to L 1850, p. 202") situated within a larger land holding. This fund also receives settlements recovered in connection with quiet title actions in which OHA is joined as a defendant. OHA uses these funds to protect or represent the interests of native Hawaiians in such instances as water rights hearings and historic site protection. Although the Native Hawaiian Rights Fund was established by the OHA Board of Trustees in 1987, it was not requested to be set up as a separate fund in the State's Financial Accounting and Management Information System until 1992, when kuleana settlements (court-ordered cash payments to quiet or remove the cloud on title to the larger property owner by "buying" kuleana interest) were also included in this fund by the Board of Trustees.

Since FY 1999-2000, the fund is also used as a means to receive and subsequently disburse grant moneys from Bank of America. The purpose of this grant is to provide both economic literacy and match moneys for OHA's Individual Development Account (IDA) program. The program is a five-year initiative that pools together funds from other collaborative partners, such as the Department of Hawaiian Home Lands and Queen Lilioukalani Children's Center. Currently, all of the funds that come into OHA from the Bank of America grant are sub-granted to the administrative agent of the IDA program, Alu Like, Inc. Performance standards are established for the IDA program.

This fund requires no general fund appropriations. It does not continue to serve its original purpose. While it continues to benefit native Hawaiians, its use as a temporary holding fund for grants unrelated to land title cases does not meet the criteria of a trust fund.

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Responses of the Affected Agencies

Comments on Agency Response

We transmitted a draft of this review to the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawaii State Public Library System, and Office of Hawaiian Affairs on January 22, 2002. A copy of the transmittal letter to the Office of the Governor is included as Attachment 1. Similar letters were sent to the Office of the Lieutenant Governor, Department of Education and Hawaii State Public Library System, and Office of Hawaiian Affairs. A copy of the response received from the Office of Hawaiian Affairs is included as Attachment 2. The Office of the Governor, Office of the Lieutenant Governor, and Department of Education and Hawaii State Public Library System did not submit written responses.

The Office of Hawaiian Affairs agreed with our review of their funds. The office agreed with our conclusion that the Mauna 'Ala Repository for Royal Native Hawaiian Remains Fund did not meet the criteria of a trust fund. Also, the office agreed with our comments regarding the Native Hawaiian Rights Fund and noted that remedial action is being taken to comply with our comments.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR

465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

January 22, 2002

COPY

The Honorable Benjamin J. Cayetano
Governor of the State of Hawaii
State Capitol, 5th Floor
Honolulu, Hawaii 96813

Dear Governor Cayetano

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Review of Revolving Funds, Trust Funds, and Trust Accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawaii State Public Library System, and Office of Hawaiian Affairs*. We ask that you telephone us by Thursday, January 24, 2002, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Thursday, January 31, 2002.

The Office of the Lieutenant Governor, Department of Education, Hawaii State Public Library System, Office of Hawaiian Affairs, and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa
State Auditor

Enclosures



STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS
711 KAPI'OLANI BOULEVARD, SUITE 500
HONOLULU, HAWAII 96813

January 31, 2002

RECEIVED

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OFF. OF THE AUDITOR
STATE OF HAWAII

Ms. Marion M. Higa
State Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Ms. Higa:

Thank you for the opportunity to offer comments on your Draft Report, Review of Revolving Funds, Trust funds, and Trust Accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawaii State Public Library System, and Office of Hawaiian Affairs. We have limited our comments to Chapter 5 of your report relating to the Office of Hawaiian Affairs. We are pleased that out of the six (6) funds audited, four (4) of these funds meet the criteria for which these funds were established and the fifth complied with the legislative intent for which the fund was created. Remedial action is being taken by the office to comply with the auditor's comments as regards to the sixth fund.

There were two (2) funds discussed in the draft report which you have indicated do . . . "not meet all the criteria of a trust fund..." The first fund is the *Mauna 'Ala Repository for Royal Native Hawaiian Remains Funds*, a trust fund created to hold general funds appropriated by the State Department of Land and Natural Resources and trust funds of the Office of Hawaiian Affairs to design and construct a facility at Mauna 'Ala to store royal native Hawaiian remains. (See: Act 296, Section 107, Session Laws of Hawaii [SLH], 1991, appropriating \$200,000 in general funds to the Department of Land and Natural Resources [DLNR], Historic Preservations Division for the Mauna 'Ala Repository on condition that these amounts be matched by the Office of Hawaiian Affairs.)

Our staff recently contacted the Section Branch Administrator of the Department of Accounting and General Services (DAGS) and learned that a trust fund should not have been created in this situation, even though DAGS originally approved of OHA's establishment of this trust account. Rather than create a trust fund as was done here, DLNR should have retained the general funds appropriated to it through Act 296 (i.e. \$200,000) in a DLNR account and the OHA matching trust funds should have been deposited into a temporary trust account accessible by DLNR consistent with guidelines established by OHA to meet its fiduciary responsibilities to its beneficiaries.

Both the general fund appropriation and OHA's trust fund contributions were returned to the respective agencies in fiscal year 1998 after the ka'ai were removed from the Bishop Museum and the purpose for the appropriation could no longer be fulfilled. According to DAGS this trust account has been closed. We agree with the auditor's conclusion that this fund, when created, did . . . "not meet all the criteria of a trust fund because it required an initial general fund appropriation."

The second fund discussed was the *Native Hawaiian Rights Fund*, a fund designed to hold monies received by the Office of Hawaiian Affairs in defending quiet title actions involving *kuleana* lands. Your report correctly asserts that this trust fund has recently been used as a holding account for OHA's Individual Development Account (IDA) program, a program unrelated to the purposes of the *Native Hawaiian Rights Fund*.

Due to an accounting oversight, three (3) deposits were made to the *Native Hawaiian Rights Fund* from grant funds received by the Bank of America for OHA's Individual Development Account (IDA) program. The three (3) deposits totaled \$75,000. In September of 2001, a contract was executed between OHA and Alu Like, Inc. to manage its IDA program. Upon the execution of the contract, \$55,000 was transferred from the *Native Hawaiian Rights Fund* to Alu Like, Inc., leaving a balance of \$20,000 of grant funds in this account. We are currently working with DAGS to establish a separate account for IDA grant deposits and to transfer the remaining \$20,000 in grant funds into this new account. Once these grant funds have been removed from the *Native Hawaiian Rights Fund*, we believe that the fund will satisfy the criteria of a trust fund.

Thank you for the opportunity to comment upon and clarify your report. We will make the modifications to our existing procedures represented in this letter.

Yours very truly,



Clyde W. Namu'o
Administrator

cc: Chairman Clayton Hee
BOT
ADM Team